

Papers on Selected Topics in Protecting the Tax Base of Developing Countries

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Neutralizing effects of hybrid mismatch arrangements

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Draft papers and outlines on selected topics in protecting tax base of developing countries, are preliminary documents for circulation at the workshop on "Tax base protection for developing countries" (New York, 4 June 2014) to stimulate discussion and critical comments. The views and opinions expressed herein are those of the authors and do not necessarily reflect those of the United Nations

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Introduction

base) or apportioned across various years (such as in the case of a

6.4 Two Steps into the Future: Reinforcing and Redefining Source State Taxation

- * Consider a more fundamental response to mismatches and base erosion that is facilitated by the focus of the UN Model on source state taxation (rather than the OECD's presumption of applying the OECD Model).
- * Rule 1- A payment made (e.g. expense) with a foreign source may only be deducted in calculating foreign source income. Foreign losses are strictly quarantined. Need for consistency with the approach to the foreign tax credit limitation.
- * Rule 2 - Full and comprehensive withholding tax on all outbound payments. Rule 2 does not apply to payments received by permanent establishments (source state taxes on a net basis), but Rules 1 and 2 apply to payments made or deemed made by permanent establishments.
- * Consequences for non-residents with domestic source income, with examples.
- * Consequences for non-residents with domestic and foreign source income, with examples.
- * Apply these rules to the examples given at 6.2 and compare the complexity of